

Oceana Intermediate School District

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Oceana Intermediate School District

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Oceana Intermediate School District

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Management Discussion and Analysis For the Fiscal Year Ended June 30, 2008

Oceana Intermediate School District, located in Hart, Michigan is reporting its financial statements in accordance with the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The current year Management's Discussion and Analysis, a requirement of GASB 34, is intended to be Oceana Intermediate School District Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

Generally accepted accounting principles according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Oceana Intermediate School District as a whole.

The *District-wide Financial Statements* provide information about the activities of the whole Intermediate School District, presenting both an aggregate view of the Intermediate School District's finances and a longer-term view of those finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Intermediate School District's operations in more detail than the district-wide financial statements by providing information about the Intermediate School District's most significant funds: the General Fund and Special Education Fund.

Helping Schools Help Students

Reporting the Intermediate School District as a Whole

District-wide Financial Statements

The district-wide financial statements include the statement of net assets and the statement of activities. These statements, which appear first in the Intermediate School District's financial statements, report information on the Intermediate School District as a whole and its activities in a way to provide an easy-to-understand overview of the Intermediate School District's financial position and results of operations for the year. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the Oceana Intermediate School District's net assets (the difference between assets and liabilities, as reported in the statement of net assets) as one way to measure the Intermediate School District's financial health or financial position. The statement of net assets and statement of activities report the governmental activities of the Oceana Intermediate School District, which encompass all of the Intermediate School District's services, including instruction, supporting services, and community services. Property taxes, state aid, and federal grants finance most of these activities.

Over time, increases or decreases in the Intermediate School District's net assets (as reported in the statement of activities) are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Intermediate School District's operating results. However, Oceana Intermediate School District exists to provide services to our local school districts, their staff, and the students they serve. Consideration of other non-financial factors, such as the quality of services provided, is needed to assess the overall health of the Oceana Intermediate School District.

The Intermediate School District's mission is to provide the leadership, programs and services that complement and enhance the efforts of the constituent school districts in extending educational opportunities to all students. The Intermediate School District does not focus on generating profits as commercial entities do. The Intermediate School District accomplishes its mission through innovative partnerships, technology, training, and professional development.

The Intermediate School District offers a wide range of services focused on improving learning. The Intermediate School District serves three local public school districts, along with two nonpublic schools.

Created by State legislation in 1962 to serve local students and act as a liaison between them and the Michigan Department of Education, the Intermediate School District is one of 57 intermediate school districts in the state. The Intermediate School District is a shared-community resource, providing an extensive network of supportive service that helps families and local schools successfully grow preschoolers into graduates and lifelong learners.

Reporting the Intermediate School District's Most Significant Funds Fund Financial Statements

The Intermediate School District's fund financial statements provide detailed information about the most significant funds-not the district as a whole. Some funds are required to be established by State law and bond covenants. However, the Intermediate School District has established other funds to help it control and manage money for particular purposes. The governmental funds of the Intermediate School District use the following accounting approach:

All of the Intermediate School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental funds statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Intermediate School District's programs. The audited financial statements describe the relationship or differences between governmental activities reported in the fund financial statements and the district-wide financial statements in reconciliation schedule.

The Intermediate School District's Funds

The Intermediate School District uses funds to help control and manage money for specific purposes. Looking at funds helps the reader consider whether the Intermediate School District is being accountable for the resources taxpayers and others provide to it

and may provide more insight into the Intermediate School District's overall financial health.

As the Intermediate School District completed this year, the governmental funds reported a combined fund balance of over \$2.6 million, which is an increase of \$351,160 from last year. The General Fund and Special Education Fund had an increase in fund balance.

- The General Fund reflects a fund balance increase by \$33,965 from the prior year. Revenues decreased by less than 1% and expenditures increased by only \$440 from prior year levels. The fund balance increase is due mainly to the Joint Operating Agreement with Mason-Lake Intermediate School District and the sharing of our Superintendent.
- In the Special Education Fund, our largest fund, the fund balance increased by \$317,195. Revenues decreased by 8% from prior year levels and expenditures increased by just over 1.5%.

The Intermediate School District as a Whole

The statement of net assets provides the perspective of the Intermediate School District as a whole. Table 1 provides a summary of the Intermediate School District's net assets as of June 30, 2007 and 2008. (see Table 1 on next page)

TABLE 1

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2008</u>
Assets		
Current and other assets	\$2,800,619	\$3,285,487
Capital assets – Net of accumulated depreciation	\$702,660	\$699,969
Total assets	\$3,503,279	\$3,985,456
Liabilities		
Current liabilities	\$344,122	\$562,629
Long-term liabilities	\$241,566	197,350
Total liabilities	\$585,688	\$759,979
Net Assets		
Invested in property and equipment – Net of related debt	\$681,530	\$699,969
Restricted	\$1,896,140	\$2,213,335
Unrestricted	\$339,921	\$ 312,173
Total net assets	\$2,917,591	\$3,225,477

The aforementioned analysis focuses on the net assets. During the fiscal year ended June 30, 2008, the districts net asset increased by \$307,886. This is largely due to increases in property tax and investment earnings. At the same time, as reflected in Table 2, total expenses remained nearly the same. Therefore, excess revenues over expenses were retained in the cash, receivable, and other current asset accounts as reflected above in Table I.

Capital assets, net of related debt compares the original cost, less accumulated depreciation of the Intermediate School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be paid from currently held investments. A portion of net assets, \$2,213,335, is legally restricted for special education programs. The remaining amount of net assets, \$312,173 was unrestricted. The operating results of both major funds will have a significant impact on the change in unrestricted net assets from year to year.

Changes in Net Assets

The results of this year's operations for the Intermediate School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2007 and 2008. Revenues in total decreased \$299,843 due to decreases in operating grants. While the revenues decreased, total expenses remained close to the same from prior year levels.

TABLE 2

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2008</u>
Revenue		
Program Revenue		
Charges for Services	\$161,096	\$154,226
Grants and Categoricals	\$2,451,698	\$2,030,718
General Revenue		
Property Tax	\$1,129,509	\$1,261,803
Unrestricted State Aid	\$235,125	\$210,817
Other	\$75,916	\$95,937
	<hr/>	<hr/>
	\$4,053,344	\$3,753,501

FY 2008 Revenues - \$3.7 Million

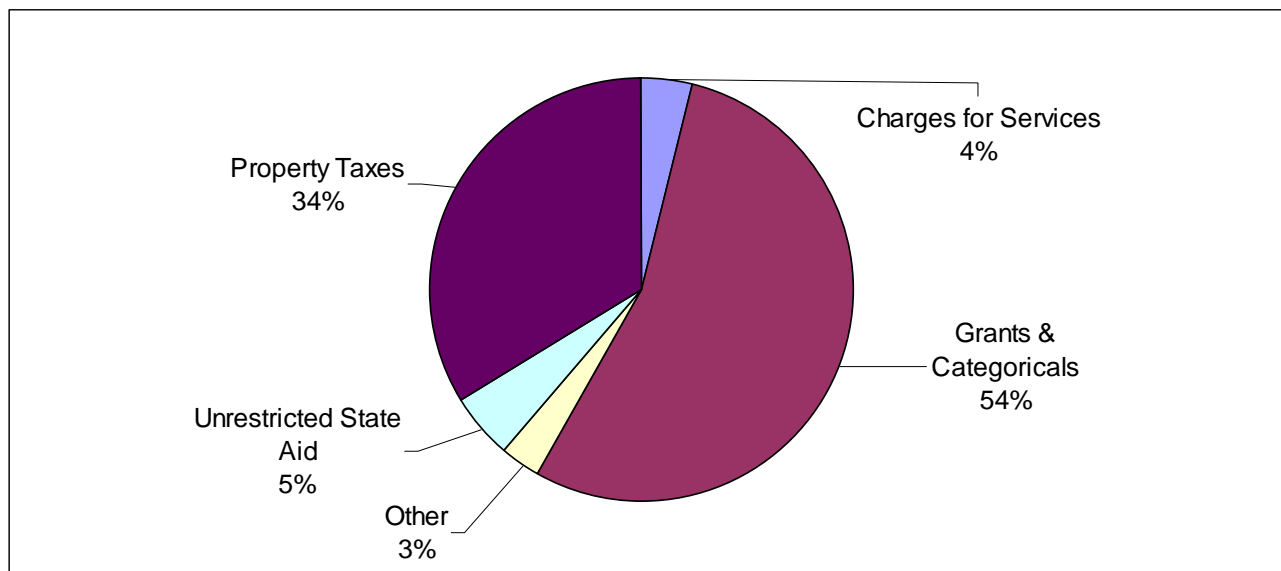
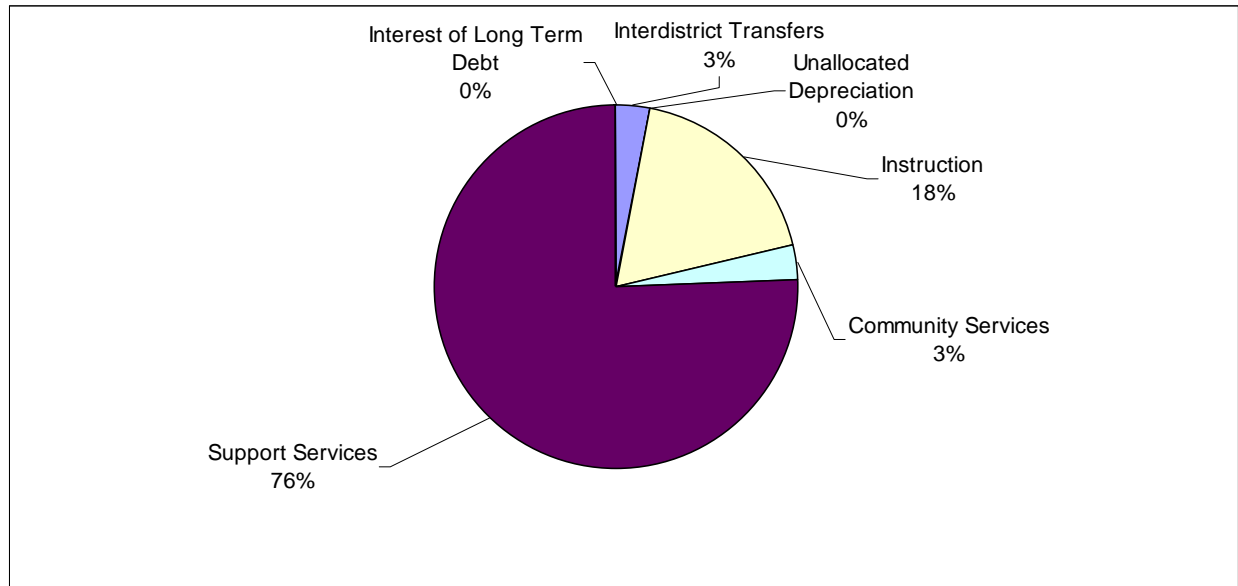


TABLE 2 (Continued)

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2008</u>
Function/Program Expenses		
Instruction	\$624,651	\$624,452
Support Services	\$2,518,933	\$2,594,677
Community Services	\$144,015	\$113,989
Inter-district Transfers	\$93,000	\$106,092
Unallocated Depreciation	\$63,242	\$ 0
Interest on Long Term Debt	\$1,551	\$6,405
	<hr/>	<hr/>
Total expenses	\$3,445,392	\$3,445,615
	<hr/>	<hr/>
Change in Net Assets	\$607,952	\$307,886
	<hr/>	<hr/>

FY 2008 Expenses - \$3.5 Million



As reported in the statement of activities, the cost of all our governmental activities this year was \$3,445,615. Certain activities were partially funded by those who benefited from the programs by charges for services totaling \$154,226 and by other governments and organizations that subsidized certain programs with grants and categorical aid totaling \$2,030,718. The net cost of \$1,260,671 represents the financial burden placed on the districts tax payers. We paid for this “public benefit” portion with property tax revenue, unrestricted state aid, and other revenues such as interest income.

Governmental Fund Budgetary Highlights

Over the course of the fiscal year, the Intermediate School District revises its budget as we attempt to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Material changes to original budgets for the General, and Special Education fund budgets are as follows:

- General Fund: Budgeted revenues increased \$76,484 due to an increase in property taxes by a millage renewal at the county level, state grant funding and federal grants. Budgeted expenditures increased \$95,565 mainly due to chargebacks from Mason-Lake ISD for professional development and general education services. Actual expenditures were within \$60,267 of the original adopted budget.
- Special Education Fund: Budgeted revenues increased \$203,335 due to greater than expected property tax and Medicaid. Budgeted expenditures increased \$56,838. This change occurred due to the hiring of part time speech therapists and higher than anticipated fuel costs and repairs on our buses. Actual expenditures were within \$30,692 of the original adopted budget.
- Original budgets are compiled in April of the preceding year. This is well before most revenue funding levels are known. For example, property tax valuations are not known until May, one month after the budget is prepared. Federal grant availability is typically not known until the end of June or the beginning of September. Because of the uncertainty that exists in April, the next year's anticipated revenue is conservatively estimated.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008 the Intermediate School District had \$699,969 invested in capital assets.

Capital Assets, not being depreciated:	<u>2007</u>	<u>2008</u>
Land	\$90,505	\$90,505
Capital Assets, being depreciated:		
Buildings & Improvements	\$594,662	594,662
Buses and other vehicles	368,984	368,984
Furniture and equipments	<u>189,072</u>	<u>250,851</u>
Total Capital Assets	\$1,243,223	\$1,214,497
Less accumulated deprecation	<u>540,563</u>	<u>605,033</u>
Net capital assets	<u><u>\$702,660</u></u>	<u><u>\$699,969</u></u>

Debt Administration

At June 30, 2008, Oceana Intermediate School District had \$135,804 in bonds outstanding. Those bonds are Durant obligation bonds that are the responsibility of the State of Michigan.

	<u>2007</u>	<u>2008</u>
Durant Bond Obligations	\$135,804	\$135,804

The State limits the amount of general obligation debt that Intermediate School Districts can issue without a vote of the electors. The debt limit is limited to 1/9 of 1% of the state equalized valuation of the taxable property within the Intermediate School District. If the Intermediate School District issues "qualified debt", i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit.

The Durant obligation is payable in annual installments of up to \$78,200, plus interest of approximately 4.76%. The Intermediate School District is obligated to make the annual principal and interest payments only to the extent of annual State of Michigan state school aid appropriations for such installments.

Economic Factors and Next Year's Budgets

Because education funding in Michigan is largely based on business taxes, such as sales tax, our slumping state economy has had a direct and continuing negative impact on education funding. At the same time, operating costs for Michigan school districts are rising faster than revenue increases. Our state legislature is being challenged to secure education funding in an environment when financial resources are declining. The local districts we serve also continue to be challenged to maintain instructional services during this time of economic uncertainty. To a large extent, their needs determine the nature and focus of our service efforts.

To assist our districts in meeting these challenges, Oceana ISD and the local districts we serve are actively seeking cost-saving collaboration opportunities between districts. During the recent fiscal year, Mason-Lake and Oceana ISD formed a business service cooperative for the benefit of our local districts. The first project was the establishment of student management software cooperative that includes the participation of all eleven school districts located within Mason-Lake and Oceana Intermediate School Districts. All eleven districts will be using that software beginning in September 2008. We are also actively exploring collaborative opportunities in other support service areas with the same goal of achieving savings that can then be redirected into instructional programs. We have completed the third year of sharing a superintendent with neighboring Mason-Lake ISD. Our dual superintendent will be retiring during FY 2009 and we expect the next superintendent to continue to serve both intermediate school districts in a dual capacity. We also share technology, human resource, and professional development staff with Mason-Lake ISD in a continuing effort to reduce costs of both districts and the districts they serve while enhancing instructional services for children.

Contacting the School District's Financial Management

This financial report is designed to provide a general overview of the Oceana Intermediate School District's finances for all those with and interest in the Intermediate School District's finances. If you have questions about this report or need additional information, contact: Jeanne Oakes, Superintendent, 844 Griswold Street, Hart, MI 49420.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 23, 2008

Board of Education
Oceana Intermediate School District
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oceana Intermediate School District (the School District), as of and for the year ended June 30, 2008, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Oceana Intermediate School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Oceana Intermediate School District, as of June 30, 2008, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 23, 2008, on our consideration of Oceana Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our test of compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - xii and 23 - 24, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Oceana Intermediate School District
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,093,445
Investments	1,475,205
Accounts receivable	1,616
Due from other governmental units	543,479
Prepaid items	35,939
Total current assets	<u>3,149,684</u>
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	90,505
Depreciable	609,464
Note receivable	135,803
Total noncurrent assets	<u>835,772</u>
Total assets	<u>3,985,456</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	470,642
Bonds and other obligations, due within one year	91,987
Total current liabilities	<u>562,629</u>
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	197,350
Total liabilities	<u>759,979</u>
NET ASSETS	
Invested in capital assets, net of related debt	634,997
Restricted for Special Education	2,213,335
Unrestricted	377,145
Total net assets	<u>\$ 3,225,477</u>

The accompanying notes are an integral part of this financial statement.

Oceana Intermediate School District
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
				Governmental activities
Governmental activities				
Instruction	\$ 624,452	\$ 76,915	\$ 292,685	\$ (254,852)
Support services	2,594,677	47,901	1,667,974	(878,802)
Community services	113,989	29,410	67,059	(17,520)
Interest on long-term debt	6,405	-	-	(6,405)
Interdistrict transfers	106,092	-	3,000	(103,092)
Total governmental activities	<u>\$ 3,445,615</u>	<u>\$ 154,226</u>	<u>\$ 2,030,718</u>	(1,260,671)
General revenues				
Property taxes levied for				
General purposes				273,990
Special education				987,813
Grants and contributions not restricted to specific programs				210,817
Unrestricted investment earnings				81,295
Miscellaneous				14,642
Total general revenues				<u>1,568,557</u>
Change in net assets				307,886
Net assets at July 1, 2007				<u>2,917,591</u>
Net assets at June 30, 2008				<u>\$ 3,225,477</u>

The accompanying notes are an integral part of this financial statement.

Oceana Intermediate School District

BALANCE SHEET

Governmental Funds

June 30, 2008

	General Fund	Special Education	Total governmental funds
ASSETS			
Cash and cash equivalents	\$ 312,687	\$ 780,758	\$ 1,093,445
Investments	189,445	1,285,760	1,475,205
Accounts receivable	1,335	281	1,616
Due from other governmental units	58,824	456,960	515,784
Prepaid items	35,144	795	35,939
Total assets	<u>\$ 597,435</u>	<u>\$ 2,524,554</u>	<u>\$ 3,121,989</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 126,284	\$ 107,130	\$ 233,414
Accrued liabilities	5,443	204,089	209,532
Total liabilities	131,727	311,219	442,946
Fund balances			
Reserved			
Prepaid items	35,144	795	35,939
Special Education	-	2,049,115	2,049,115
Unreserved			
Designated for sick leave	15,660	72,899	88,559
Designated for special education legal expenditures	-	90,526	90,526
Undesignated	414,904	-	414,904
Total fund balances	<u>465,708</u>	<u>2,213,335</u>	<u>2,679,043</u>
Total liabilities and fund balances	<u>\$ 597,435</u>	<u>\$ 2,524,554</u>	<u>\$ 3,121,989</u>

The accompanying notes are an integral part of this financial statement.

Oceana Intermediate School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

June 30, 2008

Total fund balance—governmental funds	\$ 2,679,043
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Interest receivable in government activities is not reported in the governmental funds.	27,696
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Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.

Cost of capital assets	\$ 1,305,002	
Accumulated depreciation	<u>(605,033)</u>	699,969

Other long-term note receivable in governmental activities is not reported in the governmental funds.	135,803
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Accrued interest in governmental activities is not reported in the governmental funds.	(27,697)
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Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

Bonds and obligations	(200,776)	
Compensated absences	<u>(88,561)</u>	<u>(289,337)</u>

Net assets of governmental activities in the Statement of Net Assets	\$ <u><u>3,225,477</u></u>
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The accompanying notes are an integral part of this financial statement.

Oceana Intermediate School District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2008

	General Fund	Special Education	Total governmental funds
REVENUES			
Local sources			
Property taxes	\$ 273,817	\$ 987,813	\$ 1,261,630
Medicaid reimbursement	-	338,226	338,226
Investment earnings	14,493	62,869	77,362
Drivers education	57,305	-	57,305
Fees	29,410	-	29,410
Other	3,272	22,928	26,200
Total local sources	378,297	1,411,836	1,790,133
State sources	217,444	587,990	805,434
Federal sources	24,605	1,039,003	1,063,608
Total revenues	620,346	3,038,829	3,659,175
EXPENDITURES			
Instruction	59,682	555,629	615,311
Support services	499,606	2,104,780	2,604,386
Community services	40,432	73,557	113,989
Debt service			
Principal	944	8,502	9,446
Interest and other charges	248	2,224	2,472
Total expenditures	600,912	2,744,692	3,345,604
Excess (deficiency) of revenues over (under) expenditures	19,434	294,137	313,571
OTHER FINANCING SOURCES (USES)			
Transfers from other governmental units and other transactions	8,353	73,457	81,810
Loan Proceeds	5,329	47,959	53,288
Asset sale proceeds	849	7,642	8,491
Transfers to other governmental units and other transactions	-	(106,000)	(106,000)
Total other financing sources (uses)	14,531	23,058	37,589
Net change in fund balances	33,965	317,195	351,160
Fund balances at July 1, 2007	431,743	1,896,140	2,327,883
Fund balances at June 30, 2008	\$ 465,708	\$ 2,213,335	\$ 2,679,043

The accompanying notes are an integral part of this financial statement.

Oceana Intermediate School District
**RECONCILIATION OF THE GOVERNMENT FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$ 351,160
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (64,470)	
Capital outlay	<u>61,779</u>	(2,691)

Debt proceeds are other financing sources in the governmental funds, but proceeds increase long-term debt in the Statement of Activities	(53,288)
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Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.	3,933
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Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	9,446
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	(3,933)
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>3,259</u>
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Change in net assets of governmental activities	\$ <u><u>307,886</u></u>
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The accompanying notes are an integral part of this financial statement.

Oceana Intermediate School District
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2008

	<u>Agency funds</u>
ASSETS	
Cash	\$ <u><u>551</u></u>
 LIABILITIES	
Deposits held for others	\$ <u><u>551</u></u>

The accompanying notes are an integral part of this financial statement.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Oceana Intermediate School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected five-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District’s expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District’s primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Special Education Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The School District accounts for its special education activities in the special education fund.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized costs.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deposit and Investments—Continued

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	.4458
Special Education Fund—Non-homestead	1.5903

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	15-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental statement of net assets. Bond premiums and discounts, as well as bond issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual budgets lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgets and Budgetary Accounting—Continued

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2008, General Fund expenditures exceeded appropriations by \$3,140 in Instructional staff and \$1,465 in General Administration. Special Education Fund Instructional staff expenditures exceeded budget by \$30,734. The over-expenditures were caused by a year end journal entry to record a capital lease which also included an equal and off-setting revenue. The General Fund instructional over-expenditures were funded by the fund balance in the General Fund.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
MILAF external investment pool	\$ 1,475,205	1	AAAm	100%

The School District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the School District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investments portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$1,020,519 of the School District's bank balance of \$1,143,022 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 90,505	\$ -	\$ -	\$ 90,505
Capital assets, being depreciated:				
Buildings and improvements	594,662	-	-	594,662
Furniture and equipment	189,072	61,779	-	250,851
Vehicles	368,984	-	-	368,984
Total capital assets, being depreciated	1,152,718	61,779	-	1,214,497

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Less accumulated depreciation:				
Buildings and improvements	\$ 134,043	\$ 11,045	\$ -	\$ 145,088
Furniture and equipment	131,124	28,522	-	159,646
Vehicles	275,396	24,903	-	300,299
Total accumulated depreciation	540,563	64,470	-	605,033
Total capital assets, being depreciated, net	612,155	(2,691)	-	609,464
Capital assets, net	\$ 702,660	\$ (2,691)	\$ -	\$ 699,969

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental Activities:

Instruction	\$ 6,447
Support Activities	58,023
	\$ 64,470

NOTE E—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:					
Durant bonds	\$ 135,804	\$ -	\$ -	\$ 135,804	\$ 78,215
Capital lease	21,130	53,288	9,446	64,972	13,772
Compensated absences	91,820	15,057	18,316	88,561	-
	\$ 248,754	\$ 68,345	\$ 27,762	\$ 289,337	\$ 91,987

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE F—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Governmental activities:—Continued

Durant obligations are payable in annual installments of up to \$78,200, plus interest at 4.76%. The School District is only obligated to make the annual principle and interest installments to the extent of annual State of Michigan state school aid appropriations for such installments.	\$ 135,804
Capital lease obligations payable in monthly installments of \$1,392, including interest at approximately 5% through February 2013	<div style="border-top: 1px solid black;">64,972</div> <div style="border-top: 1px solid black;">200,776</div>
Compensated absences	<div style="border-top: 1px solid black;">88,561</div> <div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 289,337</div>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for future appropriations from the State of Michigan to pay Durant obligations.

The annual requirements of principal and interest to amortize Durant obligations and capital leases outstanding as of June 30, 2008 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 91,987	\$ 33,237	\$ 125,224
2010	27,885	4,973	32,858
2011	29,264	3,594	32,858
2012	30,711	2,147	32,858
2013	20,929	792	21,721
	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 200,776</div>	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 44,743</div>	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 245,519</div>

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008, were 17.74 percent of payroll for July, August and September. For the period from October 1, 2007 to June 30, 2008 rates were 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$280,000, \$300,000, and \$285,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—COMMITMENTS AND CONTINGENCIES

Commitments

- On May 18, 1995, the School District entered into a lease agreement with Hart Public Schools. The agreement stipulated the Oceana Intermediate School District was to pay, and has paid, construction costs of approximately \$235,000 for an addition to the Spitler Elementary School in accordance with plans and specifications prepared and designed as a facility for Trainable Mentally Impaired and Severely Mentally Impaired students. The addition is to remain the property of Hart Public Schools. The facility should be available to serve Oceana Intermediate School district resident handicapped children for a minimum period of 30 years with consideration of renewing the agreement in five-year intervals at the end of the original agreement. During the fiscal year ended June 30, 1998, the School District spent an additional \$24,967 on capital outlay at the Hart Public Schools.
- In November 2001, the School District entered into an agreement with Shelby Public Schools. It stipulated that the School District would pay approximately \$112,500 for the use of a classroom to be used for Preprimary Impaired students. The classroom will be used for this purpose for 25 years. The agreement requires the School District to be responsible for some maintenance projects and after the first five years pay for the operating costs of the classroom.

Contingencies

- **Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.
- **Litigation** – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.

NOTE I—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 21.56 percent of revenues.

Oceana Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—OTHER INFORMATION—Continued

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE J—SUBSEQUENT EVENT

On July 16, 2008, the School District purchased two 2006 IC special needs buses. The purchase price was approximately \$100,000. The buses are expected to be delivered August 11, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

Oceana Intermediate School District
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 362,099	\$ 393,816	\$ 378,297	\$ (15,519)
State sources	185,044	200,638	217,444	16,806
Federal sources	-	24,605	24,605	-
Incoming transfers and other transactions	5,877	10,445	14,531	4,086
Total revenues	553,020	629,504	634,877	5,373
EXPENDITURES				
Instruction				
Basic programs	64,975	62,700	59,682	3,018
Support services				
Pupil	13,087	23,824	975	22,849
Instructional staff	85,950	104,705	107,845	(3,140)
General administration	312,720	171,331	172,796	(1,465)
School administration	-	145,726	145,726	-
Business	9,616	9,616	8,760	856
Operation and maintenance	19,337	15,705	13,304	2,401
Central	7,907	58,447	50,200	8,247
Community services	26,178	42,564	40,432	2,132
Outgoing transfers and other transactions	875	1,592	1,192	400
Total expenditures	540,645	636,210	600,912	35,298
Excess (deficiency) of revenues over (under) expenditures	\$ <u>12,375</u>	\$ <u>(6,706)</u>	33,965	\$ <u>40,671</u>
Fund balances at July 1, 2007			<u>431,743</u>	
Fund balances at June 30, 2008			\$ <u><u>465,708</u></u>	

Oceana Intermediate School District
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Special Education Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 1,343,539	\$ 1,426,936	\$ 1,411,836	\$ (15,100)
State sources	540,934	632,717	587,990	(44,727)
Federal sources	1,034,047	1,039,004	1,039,003	(1)
Incoming transfers and other transactions	56,500	79,698	129,058	49,360
Total revenues	2,975,020	3,178,355	3,167,887	(10,468)
EXPENDITURES				
Instruction				
Added needs	572,070	575,269	555,629	19,640
Support services				
Pupil	1,221,001	1,178,343	1,152,404	25,939
Instructional staff	346,581	391,752	422,486	(30,734)
General administration	62,733	62,733	50,663	12,070
Business	88,249	116,249	109,942	6,307
Operation and maintenance	90,982	90,982	74,101	16,881
Pupil transportation services	248,665	254,331	230,945	23,386
Central	64,696	71,121	64,239	6,882
Community services	77,542	78,442	73,557	4,885
Outgoing transfers and other transactions	108,865	119,000	116,726	2,274
Total expenditures	2,881,384	2,938,222	2,850,692	87,530
Excess (deficiency) of revenues over (under) expenditures	\$ 93,636	\$ 240,133	317,195	\$ 77,062
Fund balances at July 1, 2007			1,896,140	
Fund balances at June 30, 2008			\$ 2,213,335	

Oceana Intermediate School District
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2008

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 23, 2008

Board of Education
Oceana Intermediate School District
Hart, Michigan

We have audited the financial statements of Oceana Intermediate School District as of and for the year ended June 30, 2008 and have issued our report thereon dated September 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oceana Intermediate School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oceana Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oceana Intermediate School District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Education
September 23, 2008
Page 2

Compliance

As part of obtaining reasonable assurance about whether Oceana Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 23, 2008

Board of Education
Oceana Intermediate School District
Hart, Michigan

Compliance

We have audited the compliance of Oceana Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its cluster of major federal programs for the year ended June 30, 2008. Oceana Intermediate School District's cluster of major federal programs is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its cluster of major federal programs is the responsibility of Oceana Intermediate School District's management. Our responsibility is to express an opinion on Oceana Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oceana Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Oceana Intermediate School District's compliance with those requirements.

In our opinion, Oceana Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its cluster of major federal programs for the year ended June 30, 2008.

Board of Education
September 23, 2008
Page 2

Internal Control Over Compliance

The management of Oceana Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Oceana Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Oceana Intermediate School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Oceana Intermediate School District as of and for the year ended June 30, 2008 and have issued our report thereon dated September 23, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Oceana Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
U.S. Department of Education								
Direct Program								
Rural Education Achievement Program	84.358A							
S358A065922		\$ 19,055	\$ 13,930	\$ 19,055	\$ 13,930	\$ 5,125	\$ 19,055	\$ -
S358A075922		19,480	-	-	-	19,480	19,480	19,480
		38,535	13,930	19,055	13,930	24,605	38,535	19,480
Programs passed through Michigan								
Department of Education:								
I.D.E.A. 101-476	84.027							
070450-0607		814,653	169,668	169,668	814,653	-	814,653	-
080450-0708		808,831	-	523,854	-	808,831	808,831	284,977
070480-EOSD		45,000	5,030	5,030	45,000	-	45,000	-
080480-EOSD		45,000	-	36,780	-	45,000	45,000	8,220
070490-TS		60,000	7,378	7,378	60,000	-	60,000	-
080490-TS		50,000	-	37,667	-	50,000	50,000	12,333
80440-0708		4,000	-	1,124	-	4,000	4,000	2,876
80440-0708A		4,000	-	-	-	4,000	4,000	4,000
		1,831,484	182,076	781,501	919,653	911,831	1,831,484	312,406
Preschool								
070460-0607	84.173	27,057	7,349	7,349	27,057	-	27,057	-
080460-0708		26,875	-	17,780	-	26,875	26,875	9,095
		53,932	7,349	25,129	27,057	26,875	53,932	9,095
Total I.D.E.A. cluster		1,885,416	189,425	806,630	946,710	938,706	1,885,416	321,501
Infant and Toddler Early Childhood								
Intervention Program								
071340-190	84.181	63,816	16,503	16,503	63,816	-	63,816	-
081340-190		67,059	-	54,361	-	67,059	67,059	12,698
		130,875	16,503	70,864	63,816	67,059	130,875	12,698
Title V								
070250-0607	84.298	352	352	352	352	-	352	-
080250-0708		389	-	389	-	389	389	-
		741	352	741	352	389	741	-
Title II								
070520-0607	84.367	103	103	103	103	-	103	-
080520-0708		103	-	103	-	103	103	-
		206	103	206	103	103	206	-
Total passed through Michigan								
Department of Education		2,017,238	206,383	878,441	1,010,981	1,006,257	2,017,238	334,199
Total U.S. Department of Education		2,055,773	220,313	897,496	1,024,911	1,030,862	2,055,773	353,679

Oceana Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
<i>U.S. Department of Health and Human Services</i> Program passed through Michigan Department of Community Health: Medical Assistance Program Title XIX 393	93.778	\$ 15,270	\$ -	\$ 15,270	\$ -	\$ 15,270	\$ 15,270	\$ -
TOTAL FEDERAL ASSISTANCE		\$ 2,071,043	\$ 220,313	\$ 912,766	\$ 1,024,911	\$ 1,046,132	\$ 2,071,043	\$ 353,679

The accompanying notes are an integral part of this schedule.

Oceana Intermediate School District
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

1. Please see the financial statement footnotes for the significant accounting policies used in the preparation of this schedule.
2. Management has utilized the Grant Section Auditors Report (form R7120) and CMS Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008 financial statements.

General Fund	\$ 24,605
Special Education Fund	<u>1,039,003</u>
	1,063,608
Less local portion of Medicaid revenues included in federal sources in the financial statements	<u>(17,476)</u>
Expenditures per single audit report Schedule of Expenditures of Federal Awards	<u><u>\$ 1,046,132</u></u>

Oceana Intermediate School District
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Oceana Intermediate School District.
2. *No* significant deficiencies in internal control were disclosed by the audit of the financial statements.
3. *No* instances of noncompliance material to the financial statements of Oceana Intermediate School District were disclosed during the audit.
4. *No* significant deficiencies in internal control were disclosed by the audit of the cluster of major federal award programs.
5. The auditors' report on compliance for the cluster of major federal award programs for Oceana Intermediate School District expresses an unqualified opinion.
6. There were *no* audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a cluster of major programs was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education Special Education Cluster</i>	84.027 and 84.173

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Oceana Intermediate School District was determined to be a low-risk auditee.

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

NONE

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

NONE

SUPPLEMENTAL INFORMATION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

September 23, 2008

Board of Education
Oceana Intermediate School District
Hart, Michigan

We have audited the financial statements of Oceana Intermediate School District as of and for the year ended June 30, 2008 and have issued our report thereon dated September 23, 2008. Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on page 13 is provided for purposes of additional analysis and is not a required part of the financial statements or the accompanying Schedule of Expenditures of Federal Awards. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements of Oceana Intermediate School District and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Oceana Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS
For the year ended June 30, 2008

Oceana Intermediate School District acts as a fiscal agent and passes through federal funds to the following local districts:

<u>Pass-through grantee</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Amount of subrecipient award</u>	<u>Due to (from) subrecipients July 1, 2007</u>	<u>Cash or payments in kind (cash basis)</u>	<u>Expenditures (accrual basis)</u>			<u>Due to (from) subrecipients June 30, 2008</u>
						<u>Prior year</u>	<u>Current year</u>	<u>Total</u>	
I.D.E.A. 101-476	84.027	080450-0708							
Shelby Public Schools			\$ <u>48,000</u>	\$ <u>-</u>	\$ <u>48,000</u>	\$ <u>-</u>	\$ 48,000	\$ <u>48,000</u>	\$ <u>-</u>
Oceana Intermediate School District							<u>760,831</u>		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							\$ <u>808,831</u>		

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

September 23, 2008

Michigan Department of Education
Lansing, Michigan

Oceana Intermediate School District respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated August 16, 2007.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Journal Entry Procedures

Condition: The School District's standard journal entry sheet does not clearly indicate the journal entry preparer and reviewer.

Recommendation: The standard journal entry sheet should clearly indicate the journal entry preparer and reviewer.

Current Status: This recommendation was adopted in fiscal 2008. *No* similar finding was noted in the fiscal 2008 audit.

Fiscal 2007 Finding No. 2: Drivers Training Cash Receipts Procedures

Condition: The drivers training classes cash receipts book was missing pages and lacked pertinent information such as names of students making payments, the amounts and dates received from students and a total equaling the receipt total.

Recommendation: The documentation supporting cash receipts for drivers training classes should be improved.

Current Status: This recommendation was adopted in fiscal 2008. *No* similar finding was noted in the fiscal 2008 audit.

Michigan Department of Education
September 23, 2008
Page 2

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were ***no*** compliance findings reported in relation to major federal award programs.

SIGNIFICANT DEFICIENCIES

There were ***no*** reportable conditions reported in relation to major federal award programs.

Sincerely,

A handwritten signature in black ink that reads "Jeanne Oakes". The signature is written in a cursive, flowing style.

Jeanne Oakes
Superintendent

CORRECTIVE ACTION PLAN

September 23, 2008

Michigan Department of Education
Lansing, Michigan

Oceana Intermediate School District respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Responses for the year ended June 30, 2008 provided **no** findings in either Section B or Section C. Accordingly, there are **no** matters requiring corrective action as shown below.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

There were **no** compliance findings and **no** significant deficiencies in relation to the financial statement audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

There were **no** compliance findings and **no** significant deficiencies in relation to the major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Jeanne Oakes at (231) 873-5651.

Sincerely,



Jeanne Oakes
Superintendent